



Iowa Association of School Boards Written Testimony to the 2009 School Finance Interim Committee, Sept. 16, 2009

Fulfilling the 30-Year Vision of the Iowa School Foundation Formula

When the Iowa school foundation formula was created over 30 years ago, schools were funded almost exclusively by property taxes. Disparity in both per-pupil funding and tax rates was wide. The legislature stepped in and said that no longer would a child's educational opportunity be determined by their address and the state had a role in ensuring taxpayer equity. The legislature has recently taken steps to minimize the differences in school foundation property taxes by including critical categorical funds in the formula and minimizing infrastructure inequities. These steps are to be commended. There are remaining disparities on the revenue side, however, in levies and resources outside the foundation formula that are dependent on local tax bases. There are also inequities on the expenditure side when transportation and other costs vary greatly on a per student basis, but are funded with general funds that are based on enrollment. Lastly, strengths of the formula serve Iowa students well in good economic times but are at risk in tough times when the public and policy makers don't thoroughly understand their benefits.

Sharing, Reorganization and Consolidation

The divergence of tax rates is a barrier to reorganization. In many cases, school districts are faced with a nearly impossible situation: the realization that they can no longer efficiently provide a broad-based, academically rich education for their children. Consolidation today means raising property tax bills AND closing buildings. Or, in some cases, it is the opposite predicament; a tax rate so much higher that the appropriate partner would not wish to join them. Perhaps they have already achieved staff savings through administrative or whole grade sharing. In some cases transportation costs in a geographically larger district outweigh the savings leaving little to reinvest in course offerings. Although tax rates and transportation costs are rational barriers to consolidation, districts should not consolidate based on eliminating financial barriers alone. Such decisions should be driven by sound information that students would be better served in the consolidated district compared to long-term whole grade sharing or other efficiency efforts. One thing to remember – consolidation of two districts in decline result in one larger district also in decline. Likewise, student achievement and positive outcomes are exceptional in some small districts and student educational opportunities and progress should be the primary consideration of any state (or local) policy. The appropriate state role continues to be the provision of financial incentives to overcome barriers and assistance to districts in confirming that student learning expectations are met.

Property Tax Inequity

Under the current state foundation formula, property taxes are partially equalized. Schools have the \$5.40 uniform levy and the additional levy. Additional levy rates in FY 2010 range from a low of \$0.33 to a high of \$8.60 per thousand. Although narrowed over the last several years, the remaining taxpayer inequity has a number of consequences for children. In districts with high levy rates, taxpayers are often unwilling to provide the same level of educational support districts with low tax rates enjoy. Or, districts don't have the legal ability to raise levies at the same level as their neighbors which then puts an even greater burden on the general fund. Instructional Support Levies, Physical Plant and Equipment Levies or bond issues in districts with high rates are less likely to receive public approval. This raises the issue of whether a child's educational opportunity is truly independent of their address.

Contacts: Margaret Buckton, Associate Executive Director, Public Policy, Mary Gannon, Attorney and Emily Piper, Lobbyist; Iowa Association of School Boards, 6000 Grand Ave, Des Moines, IA 50312, (515) 288-1991 or (800)-795-4272, www.ia-sb.org

Complicated School Finance Terms and Concepts

Cash Reserve: Just as the state has an economic emergency fund and cash reserve fund, so do school districts. K-12 cash reserve levies are limited and cannot be assessed if the district has a cash balance greater than 25 percent of their general fund (or 20 percent beginning in FY 2012-13.) There is not a one-size-fits-all recommendation on the appropriate size of a cash reserve. In larger districts, proportionately less is may be needed since there is less risk associated with some tragedy befalling every building. In a smaller district, the likelihood of a building being destroyed by a flood or a boiler quitting is greater. In some districts, the possibility of changing economic forces, such as the closing of either a manufacturing facility or a nonpublic school mid-year or an unusually high cost of serving one special education student is greater than in others. Adequate cash reserves help districts weather the storm of economic downturns, provided the legislature allows them the spending authority to spend the cash on behalf of students.

Weightings: Student weightings within the formula are used to provide additional funding for students who typically are more expensive to educate. In addition to the three levels of special education weightings, there are also weightings for English-language learners, at-risk students, concurrent enrolled students (in community college credit courses) and others. It is an appropriate role of this interim committee to evaluate whether the weightings are sufficient to fund the educational program of all students impacted.

Spending Authority: School Districts and AEAs: Iowa is unique in the concept of the state authorized ceiling of expenditure which districts may or may not fully fund. Spending authority varies by district and in only some cases sufficient cash reserves back it. Spending authority is also associated with special education expenditures. This benefits all students – the individual education plan (IEP) for the student receiving special education services is set based on student need without sacrificing the program for the students not receiving special education services. The legislature should also be aware that the Area Education Agencies (AEAs) do not have either taxing or spending authority. AEAs should continue to receive funding from the school districts they serve, in order to efficiently and effectively provide special education, media, educational and school improvement services to Iowa school districts and students.

Allowable Growth: In tough state budget times, it is even more critical that school districts keep the flexibility of spending authority associated with allowable growth. When the economy regresses, student needs increase, including mental health issues, more free and reduced lunch eligible students, more requests to waive fees, lower community contribution to schools and uncollected property taxes. It is a priority of school board members that the 2 percent allowable growth for FY 2011 be maintained, even if the legislature cannot fully fund it. Reductions in allowable growth and unfunded allowable growth have an equal negative impact on AEA budgets. Unfunded allowable growth circles back to the property tax equity discussion. The ability of school districts to fund spending authority varies based on property value per student.

Conclusion: Over the long term, minimizing the differential in the other levies (management, physical plant and equipment, at-risk/drop out prevention, instructional support and debt levies) will help to ease the difficulty in fully accessing spending authority in tough economic times for property poor districts. Minimizing the expenditure inequities is also important, such as transportation and student weightings within the formula. This continued focus of state policy on student and taxpayer equity will go far toward insuring the goal of the foundation formula; that a child's educational opportunity in Iowa will not be determined by their address.

Contacts: Margaret Buckton, Associate Executive Director, Public Policy, Mary Gannon, Attorney and Emily Piper, Lobbyist; Iowa Association of School Boards, 6000 Grand Ave, Des Moines, IA 50312, (515) 288-1991 or (800)-795-4272, www.ia-sb.org